



“Apar Industries Limited Q2 FY 2014 Results Conference Call”

October 29, 2013



**MODERATORS: MR. CHAITANYA DESAI – JOINT MANAGING DIRECTOR,
APAR INDUSTRIES**

MR. VC DIWADKAR – CFO, APAR INDUSTRIES

MODERATOR: MR. ALOK SOMWANSHI – ANALYST, FOUR-S SERVICES



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Moderator

Ladies and gentlemen good day and welcome to Apar Industries Limited Conference Call hosted by Four-S Services. As a reminder for the duration of this conference all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you should need assistance during this conference call please signal an operator by pressing '*' followed '0' on your Touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Alok Somwanshi of Four-S Service. Thank you and over to you, sir.

Alok Somwanshi

Thank you. Good morning everyone on behalf of Four-S Services I welcome all the participants to Apar Industries' Q2 FY14 Results Conference Call. Today on the conference call we have Mr. Chaitanya Desai – Joint Managing Director, Apar Industries and Mr. V. C. Diwadkar – CFO, Apar Industries. I would like to thank the management for giving us an opportunity to host this conference call. I would now handover the call to Mr. Desai. Over to you, sir.

Chaitanya Desai

Thank you. Good morning everyone and a very warm welcome to our Q2 FY14 Earnings Call.

At the outset we are happy to report that the quarter has seen revenue growth back on track for the company despite continued challenges in the power sector. As you all are aware Apar Industries which is a global leader in conductors and transformer oil derives 75% of its revenues from the power sector hence the struggling domestic power sector in the phase of slow economic growth along with the strained industrial sector poses a challenge. Also uncertainty in tapering by the Fed has lead to high volatility in forex with increasing current account and Fiscal deficit adding to the problems. We all know rupee recovered from a low of Rs. 68.4 in August to current levels resulting in major disruption for importing industries including the power sector although generation companies were helped by dwindling international coal prices.

But what is very encouraging is that the government has shown strong intent to reform and revive the power sector by solving the coal availability issue, undertake SEBs debt restructuring and fast track large infra projects especially in power transmission and distribution. As the government continues to push for reforms and supporting policies we envisage revival of the power sector in the near term.

As regards business in Apar we are taking all necessary initiatives to increase our profit margins through improved product mix in all our business segments, reduce volatility in forex with the strong forex policy, focus on exports and improved cash flows.



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Let me first discuss the conductor business. We have recently set up a state of the art plant at Athola to manufacture for the domestic as well as export markets. This will help in improving product mix and margin profile for the conductor business. With regards transformer oil business: Apar being a pioneer in 765 KV transformer oil and amongst the only two domestic players, is expected to gain significantly with government's current crusade to strengthen the national grids through high margin, high voltage transmission lines. To improve our profitability in cables division we plan to double the high margin optical fiber cable facility capacity by the end of Q3 FY'14. Also the newly installed E-BEAM accelerators will help penetrate in to niche high margin market of irradiated cables and services.

With regards to the foreign exchange fluctuation the effect of rupee depreciation is managed through price variation clauses in the contracts through price adjustments. To further reduce the effect of forex volatility the company has amended its hedging policy in the oil division to cover an extra 30 days. Also cash flow is very important. We are maintaining a strong credit control system to manage sales in this stressed environment.

Now looking at our quarterly results I am sure you would have gone through the investor update but let me now quickly recapitulate the financial highlights for what has been a very profitable Q2 FY14 quarter despite the difficult environment.

During the quarter we posted standalone revenue growth of 3% Y-o-Y reaching Rs. 1140 crores from Rs. 1104 crores in Q2 FY13 driven by strong growth in transformer and specialty oil and power and telecom cable businesses. Our EBFTDA has grown by 114% from Rs. 47 crores to Rs. 100 crores and PAT is up by 12% from Rs. 28 crores last year to Rs. 32 crores in this year's same quarter with EBFTDA margins expansion of 450 basis points from 4.2% to 8.7%. If you see business wise performance transformer and specialty oil business posted strong growth of 23% Y-o-Y up from Rs. 449 crores in Q2 last year to Rs. 554 crores in this quarter driven by a strong performance in transformer oil and auto oil segments despite facing high forex volatility.

This segment posted good growth and margin expansion on account of favorable product mix in auto oils and positive impact of forex movement. In our conductor business we further expanded margin on account of more profitable conductor orders executed in this quarter. EBFTDA margins increased by 2.3%- up from 7.7% in Q2 FY13 to 10%. As of 1st October 2013 we have a decent order book of Rs. 1,149 crores and a healthy pipeline of Rs. 584 crores. We are pleased to report that the numerous initiatives taken over the years to revive the cable business are bearing fruits with improved product mix and increased capacity. We are already witnessing substantial turnaround in power and telecom cables.



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The cables business has grown 70% Y-o-Y in this quarter to reach Rs. 173 crores up from Rs. 101 crores in Q2 FY13 on account of strong export growth of 851%. Its EBFTDA margins jumped from 2.9% in Q2 last year to 4.6% in this quarter.

Our auto lubricants business registered strong volume growth of 6.5% Y-o-Y driven by growth in the OEM business. We have increased our OEMs customers to 10 despite the tough environment in the auto sector and increasing raw material and packing material cost issues, the company has successfully maintained its profitability by increasing price of its products.

We are very confident of good growth in all segments.

In the conductor business growth will be driven by increasing demand for our high voltage and high temperature conductors as central and state governments are pushing to strengthen the grid. We have successfully stabilized production at our new conductor plant at Athola. The plant has reached its full capacity and will help the company focus on high quality products for the domestic and export markets.

Growth in oil business will be on account of large number of substation lined up for completion, positive effect of our export drive and expected revival in the domestic industrial activity.

Growth in our cables business is driven by exports push, high value E-BEAM products, improving product mix and expanded capacity. Full commissioning of all equipments at our new Khatalwad cable plant is expected to be completed by Q3 FY'14. The company is receiving very encouraging response from the market with regards to our E-BEAM project. It has already received approval from RDSO Railways for electrical locomotives and from Goa Shipyard and we expect to receive approvals from Defence headquarters, Indian Navy and RDSO for diesel locomotive soon.

In auto lubes business we expect strong growth from rural markets with our expanded distribution network.

With this I come to the end of my comments. Thank you once again for joining us on the conference call. We will be happy to answer any questions you may have now.

Moderator

Thank you very much, sir. Ladies and gentlemen we will now begin with the Question & Answer Session. We have the first question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel

I think a couple of questions. First on the transformer segment; I think it was very impressive performance in such a volatile environment. So was that more because of the passing over the cost to the consumers or it is about more related to the volume growth?



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- V C Diwadkar** See there is a volume growth of close to 13% in the quarter and mix change also is there. We have sold close to 40% more of transformer oil in this quarter vis-à-vis the relevant quarter of last year and same is the case with auto oil. Auto oil we have sold close to about 6.5%. So there are two things, one is the overall volume growth and another is the mix change. And the auto oil and the transformer oil are having better margins out of the different oils which we manufacture and sell in the specialty oil business.
- Maulik Patel** So is that that the white oil has the lower margin?
- V C Diwadkar** White oil is with lower margin actually and so the while oil has gone down actually.
- Maulik Patel** And what you say the transformer oil volume grew by how much?
- V C Diwadkar** The value wise it has grown by about 40% quarter-on-quarter.
- Maulik Patel** But have you seen any activities coming up in the transformer segment from the SEBs and the large Government sector provider?
- V C Diwadkar** We have seen improved demand in the transformer oil segment this quarter . And going forward also lot of substations are lined up for execution so we are expecting that these transformer oil demand which is there should continue in the next two quarters also.
- Maulik Patel** So is that that I think we have the worst behind in transformer segment?
- V C Diwadkar** We can say so actually and more of 765 KVA transformers are also going to come in the quarter 3 and quarter 4.
- Maulik Patel** Are we started doing business within SEBs I think earlier we put lot of check and balances related to the working capitals?
- V C Diwadkar** We are still not doing much business with SEBs. We are only dealing with SEBs like MSEB or Gujarat or something like that actually. We are not dealing with all the SEBs because as of now on the ground level the SEB situation is not improved for all the SEBs.
- Maulik Patel** And on the conductor side we have seen that I think this is the first quarter where the order book has been more like stabilized after declining for the last few quarters. So are we looking for any uptake in an order book going forward because your order pipeline is healthy?
- Chaitanya Desai** Well, last three quarters we have been approximately at a similar number with regard to our order book position pending orders. With regard to future what we are seeing a trend that the client's profile is changing from earlier it was predominantly PowerGrid. Now it is a mix of PowerGrid and lot of other private sector companies and export. Now the private sector and



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export they don't give the business so much well in advance. They plan out their purchase when the actual stringing is to start of the conductors unlike PowerGrid which was working like a typical government organization with the tender and giving the orders like six months to one year in advance.

V C Diwadkar

So you may have not seen the order book actually but still the business is there actually.

Maulik Patel

And I think the last con call you mentioned about that huge inventory of conductors sitting at in the PowerGrid?

Chaitanya Desai

That is correct.

Maulik Patel

And I think is there an improvement or?

Chaitanya Desai

See PowerGrid is executing their projects as fast as they can but definitely not as fast as they would like. So as a result they are also now mindful because they are going for a follow on IPO and they also want to improve their balance sheet. So for the time being they are going little slow on the purchase and then once they draw down the inventory of conductors then obviously they have very ambitious good plans which will be good for the downstream companies such as ourselves also -- supplying companies. So we will see a revival of our off take of PowerGrid very soon.

Maulik Patel

But that will take another two, three quarters?

Chaitanya Desai

See we were having detailed discussions with PowerGrid and they expect by March their situation to be almost dry so to speak so obviously they will not wait till the last minute to start their purchase again. So may be from January we should see some more off take and tenders.

Maulik Patel

So expect an improvement in the last quarter?

Chaitanya Desai

As far as PowerGrid but as far as our company is concerned we are booking orders from lot of other companies in the export market so we should not see much of our problem in spite of PowerGrid not being there for the time beings but once and in a future date when we do get a revival of more domestic business then obviously our growth will again take place.

Maulik Patel

So how much of the export will be part of the revenue in the conductor?

Chaitanya Desai

It has been hovering about 30% but later on in this year we may see even more.

Maulik Patel

So and export orders are like average margin or higher margin?

Chaitanya Desai

Well, as of now it is slightly better export margin compared to the domestic.



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- Maulik Patel** But then I think going forward it may be little challenging?
- Chaitanya Desai** No, export normally is not that bad it is the domestic where in between when big customer like PowerGrid is not there then everybody is hungry for business.
- Maulik Patel** Which is the case right now?
- Chaitanya Desai** Exactly.
- Maulik Patel** And we do more export to the Africa and other countries, right?
- Chaitanya Desai** No, that used to be earlier case but over the years we have now geographically penetrated. So we are doing a fair amount of business in the Americas, in the CIS, we are now doing little sales in Europe besides of course Africa and Asia is our main quantum still but we have now managed to get breakthroughs in lot of more countries. We are exporting to almost 90 countries.
- Maulik Patel** So what is the advantage in an export market? I think it is in a low manufacturing cost?
- Chaitanya Desai** One is of course low manufacturing cost and I would say the other is that we have a decent economies of scale so we can leverage on our domestic, you know, not many countries are as large as India and definitely with our generation being in one area and transmission in some other area and also with the national grid being strengthened. So there is in one sense a decent domestic demand on which we are sort of leveraging on.
- Maulik Patel** And in the cable business if you can give update on the E-beam project that would be great?
- V C Diwadkar** As far as E-BEAM project is concerned both the E-beams have been installed and we have said in the investor update we are in the process of taking approvals. We have got RDSO approval for electrical locomotive and we are also got approval from Goa Shipyard. So we are working on these approvals so in the first quarter there was not much of revenue only about a crore of revenue from the E-beam project in this quarter. But next two quarters we are expecting about Rs. 25 crores of E-Beam revenue from the cables side and about Rs. 2 crores on the processing side. But for E-Beam to take full effect, next year will be close to around Rs. 80 crores E-beam cable revenue and the next to next year we should be able to see full E-beam in force.
- Maulik Patel** And in this year the first half we did in the CAPEX of close to around Rs. 60 crores to Rs. 70 crores on the new conductor facility?
- V C Diwadkar** No, it is partly in conductor facility and partly in the cable facility actually because we have expanded on the OFC as we have said in investor update we have doubled our OFC capacities.
- Maulik Patel** But so going forward there will not do much of the CAPEX other than the --?



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- V C Diwadkar** No, most of the CAPEX is over now actually. So going forward we will be doing only maintenance CAPEX and in case of conductor division there may be rolling mill may come up actually in Athola which is not there presently but we have three rolling mills in Silvassa closer to Athola.
- Moderator** Thank you. We have the next question from the line of Sumit Chandavani from Earth Capital. Please go ahead.
- Sumit Chandavani** On the transformer oil business how much of your business is just pure trading where you are buying and selling and how much is where you are manufacturing and selling?
- Chaitanya Desai** There is no trading business in transformer oil. The entire business is manufacturing business only.
- Sumit Chandavani** And what is your main raw material there?
- V C Diwadkar** Our raw material is transformer oil TOBS.
- Sumit Chandavani** And the prices of this kind of move in tandem with crude oil?
- V C Diwadkar** It moves in tandem crude oil but there is a lag effect is there actually. And it is also driven by demand and supply.
- Sumit Chandavani** And this is largely imported?
- V C Diwadkar** Largely it is imported but we are sourcing about 10% from the local producers also.
- Sumit Chandavani** Which refineries produce these kinds of oils?
- V C Diwadkar** These government refineries which are there actually BPCL, HPCL from there we can source. So we are sourcing 10% from there and 90% from the refineries abroad.
- Sumit Chandavani** The other question is on your balance sheet where you we have kind of been seeing this on a few quarters as well as few years where you have a high cash balance of almost Rs. 800 crores to Rs. 900 crores and you have loans of similar amount. So can you just explain to us are these LCs that you are discounting and normally we have not seen such high cash margins, normally cash margins are for LCs are may be 5%, 10%. Why do you need to keep such a high cash margin?
- V C Diwadkar** Against these cash balances we are opening further LCs by keeping 100% cash margins.
- Sumit Chandavani** So what would be the total LCs outstanding at any given point in time?



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- V C Diwadkar** The total LCs will be close to around \$318 million. A part of it will sit in the buyer's credit and part of it sits in the creditors actually as trade payable. Because there are two things actually, one is the supplier credit and another is the buyer's credit. The buyer's credit is shown as short term borrowings actually and the supplier's credit is shown as , trade payables.
- Sumit Chandavani** So out of the cash that you have which is about Rs. 900 odd crores, so how much is restricted cash where it is against?
- V C Diwadkar** At any point of time free cash is around Rs. 60 crores to Rs. 65 crores actually which is the receivables which are there in one or two days last days or in transit cash which is there.
- Sumit Chandavani** And you are essentially earning fixed deposit rates on your cash deposits?
- V C Diwadkar** Yes, we are earning fixed deposit rates.
- Sumit Chandavani** Do you think it would be kind of better if you move some of that in to FMPs and earn slightly higher on your cash deposit or the banks need high cash deposits?
- V C Diwadkar** As of now we have decided to go with the fixed deposits only.
- Sumit Chandavani** The other question is around your hedging losses again we have seen about Rs. 50 odd crores of losses every quarter. Now what is one, what is the nature of these losses are these translational losses or are these transactional losses; can you explain that a little bit?
- V C Diwadkar** Out of around Rs. 50 crores, Rs. 25 crores is the hedging cost actually. Because as I said earlier there are LCs is there actually so we are basically doing LIBOR based borrowing so we get in to these forward contracts. So around Rs. 25 crores per quarter is the hedging cost and balance Rs. 25 crores is whatever open positions are there on that whatever loss is incurred. Some of this is the incurred loss and some of this is the translational loss. And basically we have said in our investor update also some of this is recovered in the form of price also. As we have said earlier also in case of oil division we used to get ourselves covered for 90 days and the balance 90 days was open which was equivalent to the inventory which we were holding. . So what will happen actually you will incur a forex loss and on top you will get in the form of a margin. So now we have further tightened the forex policy and we have added additional 30 days. So going forward now we are covered for 120 days in the oil division.
- Sumit Chandavani** So what you would mean that your hedging cost will go up?
- V C Diwadkar** The hedging cost will go up but the fluctuation will come down.



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- Sumit Chandavani** So what do you expect now that the rupee is kind of stabilized at 61, 62 levels what would be and let us assume it kind of stays there. What would be your hedging cost and your forex losses in the next two quarters?
- V C Diwadkar** Hedging cost will be just for that additional 30 days actually which we are covering for oil that will be the additional hedging cost which will be there and if we don't incur any loss so there will not be any that additional Rs. 24 crores which we incurred in this quarter that may not be there.
- Sumit Chandavani** So Rs. 25 crores of hedging cost plus additional cost for 30 days?
- V C Diwadkar** Yes, correct.
- Sumit Chandavani** Which is going to be another Rs. 5 crores, Rs. 6 crores?
- V C Diwadkar** Correct.
- Sumit Chandavani** So you will have about Rs. 30 crores of hedging cost?
- V C Diwadkar** Rs. 30 crores, correct.
- Sumit Chandavani** And then you will not have any further losses?
- V C Diwadkar** Correct.
- Sumit Chandavani** So the next question is around when you sell to SEBs on what terms do you sell to them and are these you take advance cash or these are against LCs or these are open credits; can you give us some sense of that?
- V C Diwadkar** As we have said earlier we are not dealing much with SEBs we are only dealing with good SEBs and here there is no advance cash actually. So there are payment terms such as 30 days, 45 days these types of payment terms are there and we are dealing with good SEBs like Maharashtra, Gujarat where we are able to collect the money.
- Sumit Chandavani** So you don't sell to Bihar SEB or Rajasthan?
- V C Diwadkar** No, we don't sell. UP, Bihar where the money gets stuck up actually we don't sell to them.
- Sumit Chandavani** So right now as of now your all receivables are good and there is because we didn't see anything much in over 90 days on your March '13 balance sheet so is it?
- V C Diwadkar** More or less the receivables are good actually. There are no issues on receivables.



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- Sumit Chandavani** One last question is on your transformer oil business how much of your transformer oil business is related to new builds or expansion and how is it just replacement demand?
- V C Diwadkar** Close around 85% is the new build transformers actually and 15% will be replacement demand.
- Sumit Chandavani** 85% is new build?
- V C Diwadkar** Correct.
- Sumit Chandavani** And there you are seeing pickup in that segment or?
- V C Diwadkar** Yeah, we are seeing pickup in that segment.
- Sumit Chandavani** And that is largely coming from PowerGrid?
- V C Diwadkar** No, see we are selling to transformer manufacturers they in turn are selling to the transmission companies.
- Sumit Chandavani** So there your customers are essentially transformer manufacturers?
- V C Diwadkar** Transformer manufacturers.
- Moderator** Thank you. We have the next question from the line of Rashmi Bansal from SSA Securities. Please go ahead.
- Rashmi Bansal** My question is on the conductor business like we have seen pretty decent margin expansion this quarter. So could you throw some light on it what has led to this margin expansion and the margins of 10% are these sustainable, what is your outlook on that for next few quarters?
- V C Diwadkar** See basically the margins are driven by the orders which are executed from quarter-to-quarter and when we take these orders the margins are more or less fixed and when we execute this order whatever opportunities are there for improving the margins we do that actually. So basically the timing when these orders were taken at that point of time what demand scenario was there more or less based on that the margins will be there. So basically in this quarter we have executed orders with better margins. That is why the margins have improved.
- Chaitanya Desai** Also if I may add we have set up a new unit which is also in a tax benefit area compared to the one that we had earlier. So we had done some restructuring that is the result our cost structure has slightly improved also.
- Rashmi Bansal** So this new unit which we have set up at Nalagarh?
- Chaitanya Desai** No.



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Rashmi Bansal Nalagrah to Athola?

Chaitanya Desai Yeah, Nalagarh was there before now the new unit is in Athola.

Rashmi Bansal So what would be cost if you are – are we planning to say there are some cost difference in the two units and we are able to do some cost restructuring there is some difference in the?

Chaitanya Desai Yes, there is a benefit say about 2% or so.

V C Diwadkar In terms of logistic cost and in terms of taxes because there is no sales tax in Silvassa. Silvassa is a sales tax free zone where as in the Nalagarh we used to have 1% CST.

Rashmi Bansal How do we see this for 10% is -- see this for the next few quarters, are these kind of margins an --

Chaitanya Desai So basically the question was on the margins going forward so again as Mr. Diwadkar was mentioning it is a blend of the orders that we would execute in the following quarters. So definitely with the competition which has increased in the last two quarters the business which has been booked in the last two quarters but which will get executed in the following two quarters will definitely have a reduction in the margins as compared to earlier. Having said that the volume though will be little better compared to the earlier quarters because in the earlier quarters we had this restructuring where we were actually closing down one unit and starting another unit which got delayed. So there will be a volume improvement but a margin reduction.

Rashmi Bansal So vis-à-vis this quarter when we saw revenue drop you are saying we would see a top-line increase here?

Chaitanya Desai Correct.

Rashmi Bansal You told the order book now is not just from PGCIL and also from private players and exports so is there any break up available on what percentage of order book would be from these three segments?

Chaitanya Desai We have the data but we can send it offline because we don't have it right now handy. But it is a very small component of PowerGrid even in the last few quarters there was not so much of PowerGrid business since PowerGrid since about a year-and-half has not been buying conductors.

Rashmi Bansal I will probably get in touch with you to gets that data and there would be some margin difference also say in private players and exports?



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- Chaitanya Desai** It is a function of the dynamics of the overall demand more as compared to the type of customer. Definitely in the export market it is a little more stable because there are so many different countries we are exporting to and the whole competition is from global players while the domestic market is also somewhat depended on the demand in the local market. So if there are lot of competitors who are only selling in the domestic market and do not have a choice to export then definitely they tend to reduce their prices whenever the local market is slightly down. So the local market swings in margins a little more compared to the export market.
- Rashmi Bansal** And who would be some of these private players we are supplying to if you can give some names?
- Chaitanya Desai** So our main clients are in the EPC who takes the jobs on turnkey basis in the export market as well as the domestics. Companies like Kalpataru, KEC, L&T, and Tata.
- Moderator** Thank you. We have the next question from the line of Vishal Gajwani from Birla Sunlife Asset Management. Please go ahead.
- Vishal Gajwani** My question is on the working capital in this quarter if I look at it. The inventory turnover and debtors days both have moved up. So what is lead to this and incrementally what is the guidance on the same?
- Chaitanya Desai** Basic the debtors in case of the oil business have slightly increased because see although we are not selling to SEBs we are selling to transformer manufacturers they in turn are selling to SEBs. So they are having the cash problem is with the transformer manufacturers so in effect we are required to give extended credit to the transformer manufacturers. So because of that the debtors have increased and so is the case with inventory also. The inventory has also increased in case of oil business because we have taken more oil in this particular quarter because we are expecting that the quarter 3 and quarter 4 the demand should go up. So you should be able to see till the end of the year around these numbers only.
- Vishal Gajwani** So these elevated numbers may continue going forward?
- V C Diwadkar** The elevated numbers may continue till going forward but as far as the debtors are concerned there are no issues on the bad debt issues are not there actually because we have a good control as far as the exposure limits are concerned we operate on SAP actually and we control all these exposure limit of each and every customer.
- Vishal Gajwani** The next question is on CAPEX, what is the absolute CAPEX guidance for the next couple of years?
- V C Diwadkar** As I said earlier also that most of the CAPEX is now over actually. Whatever we have incurred we incurred close to around Rs. 67 crores, Rs. 68 crores in this first half actually. Later on till at



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least for next two to three years we will not be having any CAPEX actually. There will be basically maintenance CAPEX and we have a plan of setting up the rolling mill but as of now it is not finalized at Athola.

Vishal Gajwani So how much will be the maintenance CAPEX?

V C Diwadkar Close to around Rs. 15 crores.

Vishal Gajwani Per annum?

V C Diwadkar Yes, per annum.

Vishal Gajwani Coming to the hedging cost also as per previous speaker I wanted to understand the rational for keeping receivables as borrowing in LIBOR and then investing in INR terms in fixed deposits so you end up getting a spread LIBOR plus cost is lower while INR deposit cost is higher but you also end up doing a hedging cost and also keeping some exposure open. So just wanted to understand the rational for the same?

V C Diwadkar No, basically we are not keeping any exposure open actually. As we have explained earlier also in case of oil division only the exposure is kept open to the extent of the inventory which is available with us because we do the pricing in oil division on month on month basis. So in case we take a forward cover and we get locked in at a higher rate and later on when the material comes for pricing at that point of time if the rate is lower because as you have seen the rupee-dollar fluctuation is not on the one side only. It has gone up to 68 and then it came back to 62. So suppose we had locked in at 68 and then in the month in which we are doing the pricing the rate is say 62 then that we will get a price at 62 whereas we are locked in at 68 so that is why we used to keep open, as . But now we have decided that we will keep open only for 60 days.

Vishal Gajwani In case of oil division?

V C Diwadkar In case of oil division and in case of other division it is more or less we are taking forward covers. So there is no open.

Vishal Gajwani But sir, if there is no open then why there is a Rs. 25 crores of loss?

V C Diwadkar That is because of oil division only. That is what we have said.

Vishal Gajwani So that 60 days opened?

V C Diwadkar Yeah, that is for oil division only and a part of it is reflected in the better realizations also.

Chaitanya Desai Of the finished goods.



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- V C Diwadkar** That is why in the investor update also we have said that one of the reason for the oil margin expansion one is the volumes are better and another is the product mix is better actually and the third is the exchange effect is also there.
- Vishal Gajwani** So if I understand this correctly the Rs. 25 crores loss that is there the forex loss in this quarter that is compensated by equal revenue increase in the...
- V C Diwadkar** We will not be able to understand whether it is equal or not actually. But the impact of that loss is there in the better realization and margin expansion.
- Vishal Gajwani** So if you look at the EBITDA margin of the oil division we should actually ideally reduce the forex losses which are below EBITDA levels?
- V C Diwadkar** Truly speaking actually if you can adjust the forex losses close to Rs. 23 crores is there actually which if you can adjust actually it will show you the like-to-like numbers.
- Vishal Gajwani** Lastly, if I were to understand going forward in the next couple of years what is the kind of margins and revenue growth that we should expect from your company?
- V C Diwadkar** See basically the conductor and the oil business we have earlier also said actually we are not giving any specific guidance but broadly we have said actually that the growth should be close to around 15% whereas the cable business the growth will be much more than that.
- Vishal Gajwani** And what is the kind of normalized margin that we should expect for on a may be segment wise?
- V C Diwadkar** We are not calculating the margin in percentage terms because percentage in case the oil price goes up that does not mean that our margins will improve. So in case of conductor and oil we go on the basis of per metric ton and per KL so per metric ton we used to say around Rs. 10,000 EBITDA margin in case of conductor and around Rs. 5,500 in case of oil that can be the level of margins but of course there are some steps which we have taken for improving this margins like the high temperature conductors in case of conductor and the 765 KVA oils in case of transformer oil. So when these things kick in actually this margin should improve.
- Moderator** Thank you. We will take the next question from the line of Vipul Shah from Ripple Wave Equity Private Limited. Please go ahead.
- Vipul Shah** My only question is, are we going to upload the transcript of this call on our website as most companies do?
- V C Diwadkar** Yes, we will be doing that.



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- Vipul Shah** Because I cannot see the earlier call transcripts uploaded because if there is a new investor and he wants to sort of at least take a look at the earlier transcripts then it becomes difficult.
- V C Diwadkar** No, earlier transcript also we had uploaded actually but we do not keep all the transcript on the website actually. We upload it and then after say about a month or so we remove that actually. That is what we are doing.
- Moderator** Thank you. We have the next follow up question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel** I think the question is again on the balance sheet side because given that the CAPEX requirement in the future will be lower. How do we plan to use the internal accruals going forward?
- V C Diwadkar** Two things will be there. One is that the borrowings will go down initially.
- Maulik Patel** What is the normal borrowing apart from that the forex part?
- V C Diwadkar** Yeah, after all the long term borrowings are not much actually. Long term borrowings as of now is around Rs. 80 crores out of that Rs. 67 crores is ECB and Rs. 13 crores is the long term fixed deposits which are there. And that we will have to figure out actually, what needs to be done actually. There may be some growth opportunities and some opportunities are outside also.
- Moderator** Thank you. We have the next question from the line of Josce Thomas from BNP Paribas. Please go ahead.
- Josce Thomas** The question is regarding the revenue breakup of cables business.
- V C Diwadkar** In the quarter almost 50% is export.
- Josce Thomas** Does this applied to both electrical and telecom or just telecom?
- V C Diwadkar** Main is electrical actually and telecom also is there actually. But telecom is not much.
- Josce Thomas** And which product do you export, it is optic fiber right?
- V C Diwadkar** No, we are not exporting optical fiber. We are exporting mainly power cables, XLP cables.
- Josce Thomas** And how is the domestic scenario like sir?
- V C Diwadkar** Domestic scenario is also improving actually. The business is improving, margins are also improving.



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Josce Thomas And do you see a revival of your user industries domestic wise?

V C Diwadkar User industries, yes we are seeing some revival.

Josce Thomas Can you explain on that, sir?

Chaitanya Desai Last year the statistics we had seen in the cable business not only ours but as an overall demand in India had gone down by almost 25%. This year what we are seeing, it has gone up by about 15% compared to last year. And may be in a year's time it may go back to like what it was year before last. So it is rapidly kind of changing now for the better.

Josce Thomas On the quarter-on-quarter wise things are getting better, right sir?

Chaitanya Desai Absolutely.

Josce Thomas And sir, just to understand the cycle compared to the last year the first two quarters was it good enough?

Chaitanya Desai We were slightly increasing trend. We are talking about cables, right?

Josce Thomas Yes sir.

Chaitanya Desai So we were slightly having an increasing trend but this quarter we have seen a substantial improvement.

Josce Thomas Sequentially or year-on-year basis?

Chaitanya Desai Both.

Josce Thomas And can you explain a bit on the domestic scenario of JFTC cables?

Chaitanya Desai That is known that whole market domestic and international nobody nowadays use JFTC cables and lot of companies such as ourselves have used some of the equipment for power cable production. This wireless coming in now JFTC market is finished.

Josce Thomas Yes sir. And what about the CAPEX regarding optic fibers?

Chaitanya Desai We have utilized some CAPEX to increase our capacity, optical fiber cables.

V C Diwadkar There is a big demand which is going to come from Bharat Broadband Limited actually. They are trying to put these optic fiber cables across all the grampanchayat and all these things. So big program is there. So for that we are expecting big order and to execute that order actually



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plus the overall increase which is there we have put up a capacity actually. We have doubled the capacity.

Josce Thomas Just one question, sir. Regarding the BBNL's you are referring to National Optic Fiber Network Project, right sir?

V C Diwadkar Correct.

Josce Thomas We heard we heard that it is going to be delayed?

V C Diwadkar It has been delayed actually.

Josce Thomas And the procurement process for optic fibers is also delayed by legal issue or something like that?

Chaitanya Desai There were some retendering not of the optical fiber cables but of certain other components of the system but that is getting resolved and also we expect that the optical fiber cable aspect business should start coming in by December.

Josce Thomas So, do you see this legal issue being sorted out by December?

Chaitanya Desai Yeah, it is more like a retendering issue.

Josce Thomas So by December things would get all right with BBNL, right?

Chaitanya Desai Yes.

Moderator Thank you. We will take the next question from the line of Hardik Shah from ICICI Securities. Please go ahead.

Hardik Shah During last quarter's con call you did mention that the inventory level at PGCIL which is worth Rs. 7,000 odd crores, so based on your discussion would you like to quantify the current inventory level at PGCIL?

Chaitanya Desai We have a general idea on the PGCIL inventories have been about the same. That is why they have not yet bought the quantities because they had already placed orders before which were getting executed. So during last quarter for example on one hand they stung the conductors on the other hand they are also had bought certain quantities based on orders placed couple of years ago. Since now more than a year the quantity of future business to the suppliers had practically dried up. So very soon in this second half they are expecting almost 70% of the inventory to be used up. So going forward we see that in January time frame they may start again the tendering process for new businesses.



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- Moderator** Thank you. We have the next follow up question from the line of Sumit Chandavani from Earth Capital. Please go ahead.
- Sumit Chandavani** I just have couple of follow up questions. So one is if now that the rupee is stabilized around 61, 62 do you see your transformer oil margins coming down a bit because realizations will go down?
- V C Diwadkar** Realizations will go down then we will not incur the exchange loss also. So basically the margins will remain same actually. As I explained earlier actually there is an exchange element in the transformer oil margin actually. So if we don't incur the exchange so exchange loss also will not be incurred at the same time the margins also.
- Sumit Chandavani** So we should assume the transformer oil you are showing an 11% EBITDA margin. Is that you think you will be able to maintain that through rest of the year?
- V C Diwadkar** No, not 11% as I earlier also said actually the standard margins which we can consider for transformer oil, the oil division is around Rs. 5,500 per KL and that is based on the present mix which is there actually. If the mix improves or within the transformer oil also when this 765 KVA transformers kick-in actually and more of 765 KVA transformer business is there then the margin should improve.
- Moderator** Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Alok Somwanshi for closing comments. Thank you and over to you, sir.
- Alok Somwanshi** Thank you. I would like to thank the management for giving this opportunity to host the call and all the participants for joining the call. Thank you.
- Chaitanya Desai** Thank you very much for being on the call and if are any further queries we will be more than happy to offline reply to them one-on-one. Thank you.
- Moderator** Thank you, sir. Ladies and gentlemen on behalf of Apar Industries and Four-S Services that concludes this conference call. Thank you for joining us, you may now disconnect your lines.